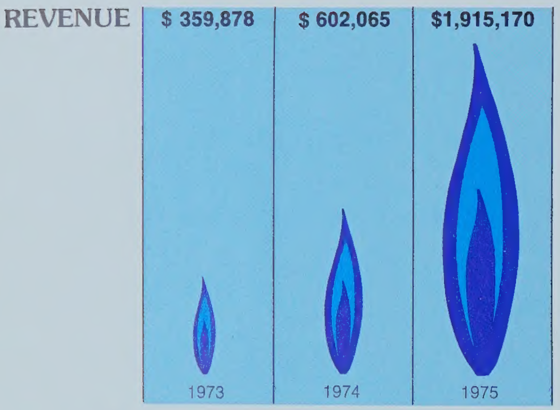
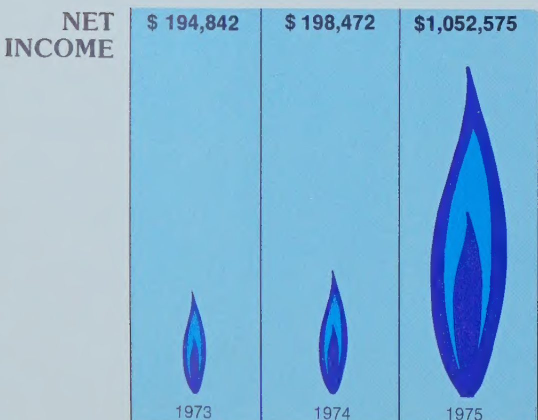
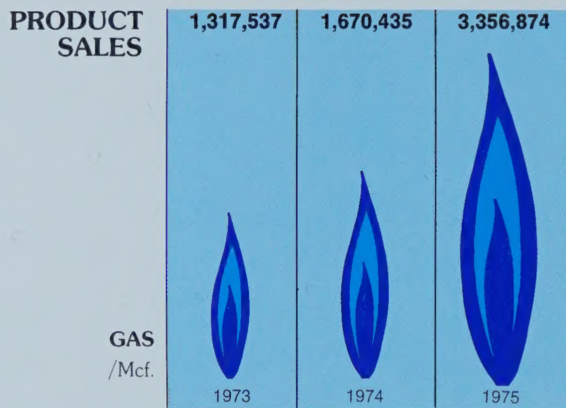
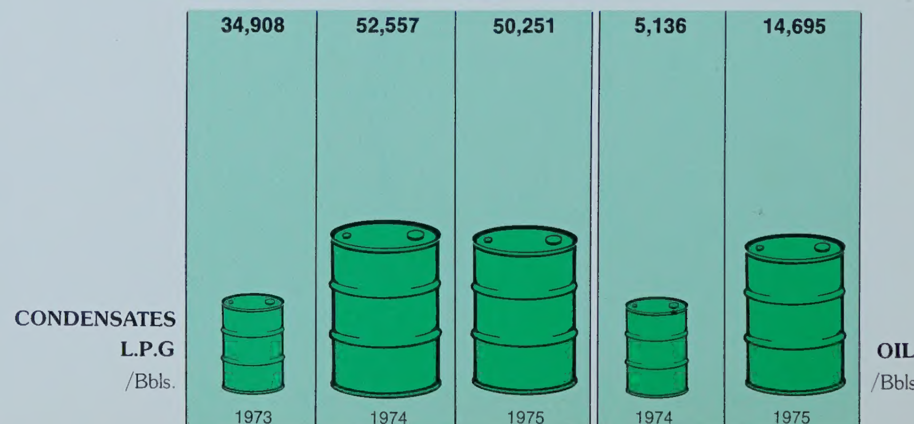
Coseka Resources Limited 1975 Report

1975 "The Emerging Profits"









COSEKA RESOURCES LIMITED

Directors

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Calgary, Alberta,
President,
Safari Oil & Gas Ltd.

John S. Davidson,
Vancouver, B.C.,
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Reed Shaw Osler Limited

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Brinco Limited

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Brinco Limited

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Executive Vice President,
Bethlehem Copper Corporation

Officers

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John S. Davidson

President,
Peter R. Kutney, P.Eng.

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(Calgary Operations)
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and Administration,
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SHARES LISTED
Oil Section — Toronto Stock Exchange
— Vancouver Stock Exchange

1975 Report of the Directors to the Shareholders

Carbondale Area driller — Bellevue 6-5-7-3(W5M).

"The emerging profits" is an appropriate theme for this year's annual report to mark the first year that Coseka's profits have passed the one million dollar mark — in excess of a five-fold increase over the previous fiscal year. This increase comes about due to a variety of reasons, including:

(a) an increase in Alberta prices to 60¢ per Mcf as of November 1, 1974 — applicable to a majority of Coseka's Alberta properties.

(b) an increase, since last July, in Coseka's net daily gas production by approximately 6,800 Mcf per day commencing the winter of 1974-1975.

The net earnings of the Company of 17.4¢ per share does not include two months of income from North Coleman under the take-or-pay provisions of the Gas Sales Agreement. This gross take-or-pay income of $301,386, when adjusted for future royalties, depletion and provision for deferred income tax, adds an additional 1.7¢ per share net earnings, bringing the total for the year to 19.1¢ per share. Although management feels strongly that such income should be included in the income statement for the year, the Company's auditors would not agree.

The highlights of the past fiscal year include:

(a) the completion of the $2,000,000 North Coleman gas gathering and dehydration system on May 31, 1975. Initial gas deliveries commenced on November 5, 1975.

(b) the discovery of oil in the Otter area of northwestern Alberta. To date, Coseka and its associates have drilled 4 wells, of which 2 wells are producing, one well is awaiting completion, and one well has been abandoned.

(c) the discovery of gas in the Athens area of North Louisiana, U.S.A. To date, Coseka and its associates have drilled and completed three commercial gas wells.

(d) the development of commercial gas production in the Gundy Creek area of northeastern British Columbia. Out of a total of five wells drilled to date, four are now on production.

The Company was extremely active during the past fiscal year notwithstanding the uncertainties in the political atmosphere of the Petroleum and Gas Industry in Canada. The Company's faith in the final favourable outcome of Federal and Provincial resolutions affecting the well-being of the Industry was well rewarded. During this fiscal year, the Company participated in the drilling of 294(1) gross wells (46.3 net), resulting in 285 gas wells (44.8 net), two oil wells (0.95 net, and seven abandonments (0.59 net). Most of these wells will be on production for the greater part of the coming fiscal year. As of July 31, 1975, Coseka has an interest in 558(1) gas wells (106.7 net).

Note (1): Each producing zone of a multi-completion well counted as one well.

The Company has expanded its operations and is now Operator of five producing properties, namely North Coleman, Medicine Hat (Schuler), Hatton, Gundy Creek and Otter. The Company has therfore, added to its field staff and now has 16 employees, without whose hard work and dedication the results we have reported on could not have been posible. We also wish to acknowledge the assistance obtained from Mr. Royden Morris and Mr. John E. Labrecque. Mr Morris resigned as an officer of the Company on May 31, 1975. He remains as a Director of the Company, and a Director of our mining subsidiary, Wharf Resources Ltd. Mr. Labrecque resigned on August 31, 1975.

In conclusion, the outlook for the forthcoming fiscal year looks exceedingly bright considering the trend in Alberta wellhead gas prices (estimated to be approximately 92¢ per Mcf commencing November 1, 1975), the addition of approximately 8,500 Mcf per day of sales from North Coleman, a 22¢ per Mcf (net of royalties) increase in price applicable to Coseka's British Columbia properties, and anticipated initial production from the North Louisiana property at a price in the range of $1.50 per Mcf. In addition, Coseka is currently participating in the drilling of an additional 42 shallow gas wells (11.5 net wells) in southeastern Alberta in properties already connected to a sales outlet. Thirty of the said wells will be multiple zone completions, resulting in 83 zone completions. Further development drilling will also continue in other properties to delineate the limits of the productive reservoirs.

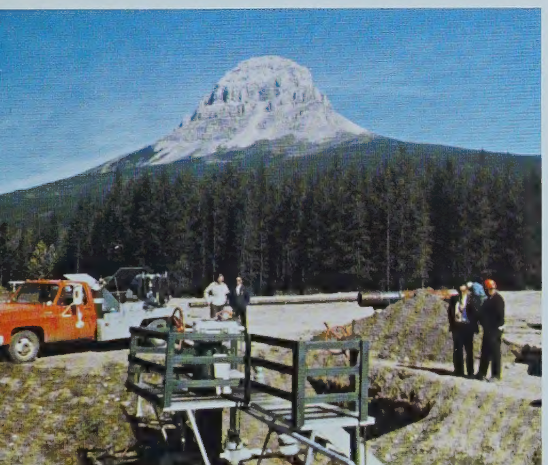
John S. Davidson
Chairman

President

November 17, 1975.

Financial Review

Preparations for tieing Coleman gas line into Saratoga line.



In this year of significant income growth, all of the Company's major producing areas recorded substantial gains. Sales increased 3.2 times to $1,915,170 as a result of major production increases, through additional drilling during the year in the Provinces of Alberta, British Columbia and Saskatchewan. Commencing on November 1, 1974, natural gas price increases in the Province of Alberta added materially to increased revenue. Funds generated by Operations (Cash Flow) totalling $1,230,962 grew by 3.9 times over the previous year and is reflected in a rate per share of 20¢ (undiluted) compared to the previous year rate of 3¢ per share. Income before taxes and extraordinary items of $1,043,543 increased from $231,934 for July 31, 1974. Finally, Net Income increased 5.3 times to $1,052,575 or 17.4¢ per share (undiluted).

The Company shows in the Statement of Financial Position as at July 31, 1975 a deferred credit to income in the amount of $205,368. This represents North Coleman Natural Gas Sales less estimated Royalties and Operating costs for the months of June and July, 1975 calculated under the take-or-pay clause of the Sales Contract between the Buyer and the Company. Since July 31, 1975, payment has been received for the month of June, 1975 take-or-pay and management anticipates full payment of the July, 1975 portion in the next fiscal year. If the Company were to record this amount in the Income Statement, which generally accepted accounting practice precludes, then the net income of the Company would have been increased by $205,368 less an applicable provision for depletion and deferred income taxes of $100,185, or a net addition to income of $105,183.

The Company's net income for the fiscal period would then be $1,157,758 resulting in a higher net earnings per share of 19.1¢ or an increase of 1.7¢ per share from that shown.

On September 1, 1974, the Company issued $3,500,000 of 8% Convertible Debentures of which $1,900,120 was applied against Bank Borrowings and the balance used in development of its Petroleum and Natural Gas Properties.

Expenditures of $4,293,433 on the Company's Petroleum and Natural Gas Properties represent for the most part, development drilling programmes on existing properties in the Provinces of Alberta, British Columbia and Saskatchewan and contributed materially to the net income for this year.

During the year, existing bank loans were consolidated under one secured line of credit amounting to $3,000,000 repayable over five years commencing August, 1975 and an unsecured working capital line of credit of $500,000. At the present time, it is felt by management that this banking arrangement will give the Company sufficient funds and working capital to bridge the immediate future and enable the Company to complete its existing capital programmes while cash flow from operations increases to the level where the Company can self-finance its pending development and exploratory projects. The undrawn balance of the Bank line of credit at July 31, 1975 was $1,054,000.

Notwithstanding the heavy capital expenditures, income was sufficient to increase the Company's consolidated working capital by $248,997 leaving the Company at July 31, 19755 with a working capital balance of $80,055.

Development and Exploration

Development

STRACHAN

A development well, which was drilled in the Strachan field, encountered approximately 150 feet of Leduc (D-3) net pay. After completing the well, testing operations established an A.O.F. capability of 52.5 million cubic feet per day. The field gas gathering system has been extended to include the well which will be utilized to prevent offset drainage and maintain maximum deliverability up to the plant capacity. A railroad spur has been completed into the plant site, thus providing the required source of transportation to market the sulphur by-product that has been produced at the Plant. Sulphur sales from this property will commence immediately. A joint well to test the Cardium will be started soon.

TILLEY-BANTRY

During the fall of 1974, the Tilley-Bantry operation was enlarged to include a second compressor station. An extensive development program was then carried out, which consisted of 56 new wells, for a total of 151 producing zones. The new wells were tied into the gas gathering system and placed on stream during the first quarter of 1975. A further development program is now being carried out and will consist of the drilling of 30 new wells, or 73 producing zones. This will bring the development of the property to a total of 210 producing wells, or 491 producing zones.

MEDICINE HAT

The Schuler gas gathering system was expanded during the last quarter of 1974 to include a lateral line extending down into the Medicine Hat Property No. 1 and the installation of several short lateral lines in Property No. 4. The Medicine Hat Property No. 1 was then developed on a 320-acre spacing pattern. Upon completion of the program, 23 Milk River wells were placed on production. A partial infill development program on Property No. 4 was also carried out and resulted in the drilling and completion of four new wells. The new wells, along with three previously drilled but suspended wells, were tied into the gas gathering system, bringing the Property No. 4 development up to 22 wells, or 26 producing zones.

A further partial infill development program on the three properties is currently being carried out and when completed will consist of two wells (one dual zone completion) on Property No. 4, two wells on Property No. 2, and seven wells on Property No. 1. When these new wells are placed on stream, it is anticipated that the Plant will be operating at total capacity. Further infill drilling is proposed for 1976 to maintain the Plant at a maximum operating capacity. Consideration is also being given to expanding the Plant and carrying out a full development of the Medicine Hat Properties No. 1, No. 2 and No. 4 on a 160-acre spacing pattern.

NORTH COLEMAN

The North Coleman field was placed on production during the first part of November. Further development drilling, in order to increase the initial gas sales contract volume, is tentatively scheduled for next year.

HOLDEN

The Holden-Viking gas reservoir has been unitized, with Coseka having a 7.284% Working Interest. Field gathering and central plant facilities are currently under an advanced stage of construction and on-stream date is tentatively scheduled for early November 1975.

HATTON

The Hatton property was placed on production with ten wells (12 zone completions) producing into a central gathering system and compressor station. Cumulative production from the field during the first nine months of operation has been in excess of two billion cubic feet of gas. An infill dual zone well is now being drilled and will be tied into the system, thus providing sufficient deliverability to maintain the Plant at its maximum capacity.

GUNDY CREEK

Following the drilling of the Frio Coseka Gundy Creek c-76-A well in the fall of 1974, an extensive development program has been carried out extending the field to the northwest and southeast. To date, four wells have been completed, tied into a central gathering system and placed on production. Several other locations have also been proved up and further development will be carried out during 1975-76.

Production tests have also been conducted on several of the original suspended Gundy Creek wells located on a structure just west of the structure currently being developed. Results of the tests have been encouraging and one well has been placed on production.

BUICK CREEK

A gas contract was negotiated at the "new gas" price level for the Buick Creek d-55-F well. Field dehydration facilities were installed and a 1½ mile lateral line was installed down to the Pacific Buick Creek gas gathering system. The well was placed on production during the month of March and has been producing at a rate of 1.5 million cubic feet per day.

SYLVAN LAKE

The South Sylvan Lake-Viking Pool, in which Coseka has a working interest in three producing oil wells, has been granted approval to operate under good engineering production practices. Under this mode of operation, both oil and gas can be produced and sold. A gas plant and central gathering system has been installed. The facilities were placed into service during the month of August, 1975, and both oil and gas are now being sold.

Drilling Results — 1975

	Gross	Net
GAS	285	44.77
OIL	2	0.95
DRY	7	0.59
	294	46.31

Exploration

CARBONDALE

New seismic data has confirmed evidence of at least two major structures on the farmout acreage and the first earning well was spudded at Lsd 6-5-7-3 W5M. This well is located approximately 13 miles south of the North Coleman field.

BENJAMIN CREEK

The Imperial Hershey et al Benjamin Creek 4-6-29-7 W5M well was completed during 1975. Production tests on the well established a Mississippian reservoir to be gas bearing. However, downhole mechanical problems, which occurred during the completion operations, prevent the well from being properly evaluated. An additional seismic evaluation program is proposed before further development of the property is attempted.

BURNT LAKES

The Burnt Lakes area is part of the Imperial Oil Joint Venture. Coseka has earned an interest in the property through the drilling of a well which was taken down to evaluate the Middle Devonian Keg River Carbonate zone during the spring of 1973. Subsequent evaluation of the well has indicated that the area contains potentially commercial oil reserves. Further drilling on the property will be carried out during the first quarter of 1976.

VENUS

The Venus property is part of the Imperial Oil Joint Venture and is located in Townships 99, 100 and 101, Ranges 8, 9 and 10, W6M. The Farmout Agreement has been finalized with an outside operator, and a two-well evaluation program will be carried out on the property during the spring of 1976.

DRILLING FUND OPERATIONS

An extensive exploration program was carried out with a West German Drilling Fund during 1974-75. The program has included the drilling of wells in both Canada and the United States.

Eight exploration projects have been drilled to date, three of which have proven to be productive.

The first significant discovery was in the Athens area of northwest Louisana, where a Hosston zone gas discovery was made. A gas contract is now being negotiated and it is anticipated that the property will be placed on stream early in 1976. Two follow-up development wells to the discovery well have been drilled and completed.

The second successful project was in the Otter area of north-central Alberta where a Keg River oil discovery was made. Three follow-up wells to the discovery well have been drilled. One is a producer, one is being completed at the time of this report, and one found the Keg River zone too high with the producing zone pinched out.

The third successful project was a one and one-half mile step out in the Gundy Creek area of northeast British Columbia. The Baldonnel zone was found to be structurally high and gas bearing. Three additional Baldonnel development wells have now been drilled, two have been placed on production and one was abandoned.

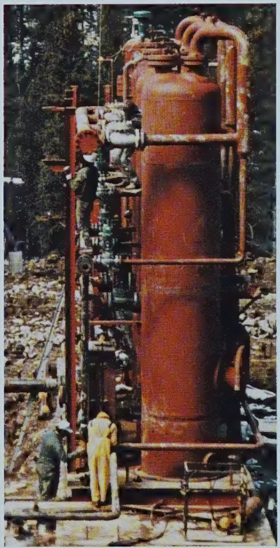
Further exploration projects are now in final planning stages and wells wil be drilled in the Clarke Lake and Buick Creek areas of northeast British Columbia, the Holden area of western Alberta, and the Corpus Christi area in the State of Texas, U.S.A.

Summary of Wells

	1975 Gross	1975 Net	1974 Gross	1974 Net
GAS				
Alberta				
Strachan	5.0	0.08	4.0	0.06
Tilley-Bantry	427.0 (1)	42.80	181.0 (1)	18.15
Coleman	5.0 (1)	1.71	5.0 (1)	1.71
Medicine Hat	84.0 (1)	52.65	60.0 (1)	35.95
South Ricinus	1.0	0.17	1.0	0.17
Virgo	1.0	0.23	1.0	0.23
Atmore	2.0	0.25	2.0	0.25
Holden	8.0	0.58	6.0	0.75
Benjamin Creek	1.0	0.07	—	—
Saskatchewan				
Hatton	18.0	5.4	8.0	2.4
Northeastern British Columbia				
Buick Creek	1.0	1.0	1.0	1.0
Rigel	1.0	0.5	1.0	0.5
Gundy Creek	2.0	0.74	—	—
U.S.A.				
Louisiana	2.0	0.53	—	—
TOTAL GAS	558.0	106.71	270.0	61.16
OIL				
Alberta				
Otter	2.0	0.95	—	—
South Sylvan Lake	3.0	0.60	3.0	0.6
Sunset	1.0	0.50	1.0	0.5
U.S.A.				
Grayson County	2.0	0.50	2.0	0.5
TOTAL OIL	8.0	2.55	6.0	1.6

Note (1): Each producing zone of a multi-completion well counted as one well.

COLEMAN, Alberta



Dehydration facilities under construction.

Central field dehydration facilities at North Coleman.

Coseka employees inspecting wellhead facilities at Coseka 6-14 Coleman well.

GUNDY CREEK, British Columbia

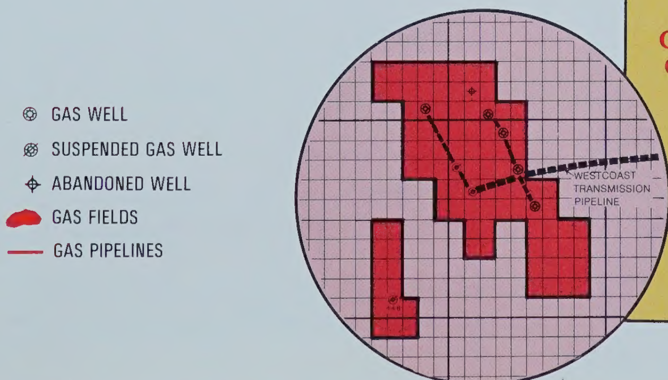
By farmout and purchases at Crown land sales, Coseka and its partners have acquired the rights to 17,159 acres in the Gundy Creek area of northeast British Columbia.

As of this date, a total of five wells have been drilled, four of which have resulted in commercial gas producers. All four wells are now on production, with the last two having been placed on stream in October of this year. The wells are being produced at a restricted rate of production totalling 7.5 million cubic feet per day. In addition, a formerly suspended well acquired under the Farmout Agreement has been reworked and placed on production at a rate of 1,000 Mcf per day.

Two of the later wells were drilled as a result of a promised interest-free Development Advance from the British Columbia Petroleum Corporation. The agreement is in the process of being finalized.

Application has been made for additional Development Advances for further drilling.

The Gundy Creek gas production is classified as "new gas" and, as such, qualifies for a price of 55¢ per Mcf (Crown royalty free) commencing November 1, 1975. Coseka's interest in this acreage varies between 23.75%, 35.625% and 50.0%.



CARBONDALE, Alberta

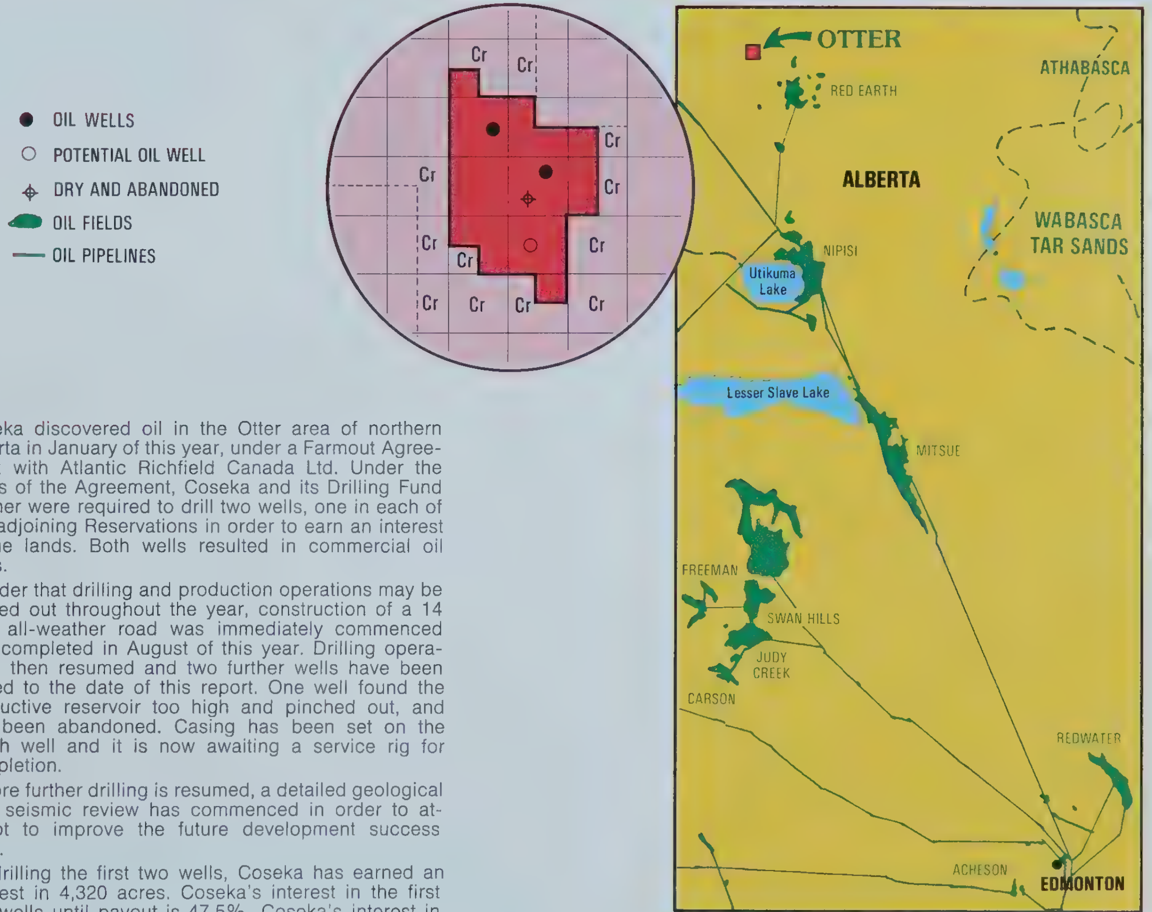
The Carbondale property abuts directly on the southern boundary of Coseka's North Coleman acreage, and lies directly between the North Coleman and Waterton gas fields. This latter gas field is reported to have a producing well rated as the largest productive gas well in the land area of North America.

During the past year, Coseka and its partners have consolidated their land holdings in this area by obtaining a farmout on an additional 13,000 acres, bringing the total acreage holdings up to approximately 53,000 acres.

On July 30, 1975, Coseka and its several partners spudded the first commitment well, which at the time of this writing is at a depth in excess of 10,000 feet. The projected total depth in order to test all prospective horizons is 11,800 feet.

Coseka's interest in this block of acreage varies between 13.0% to 18.4%. Coseka's interest in the first test well is 18.4%.

OTTER, Alberta



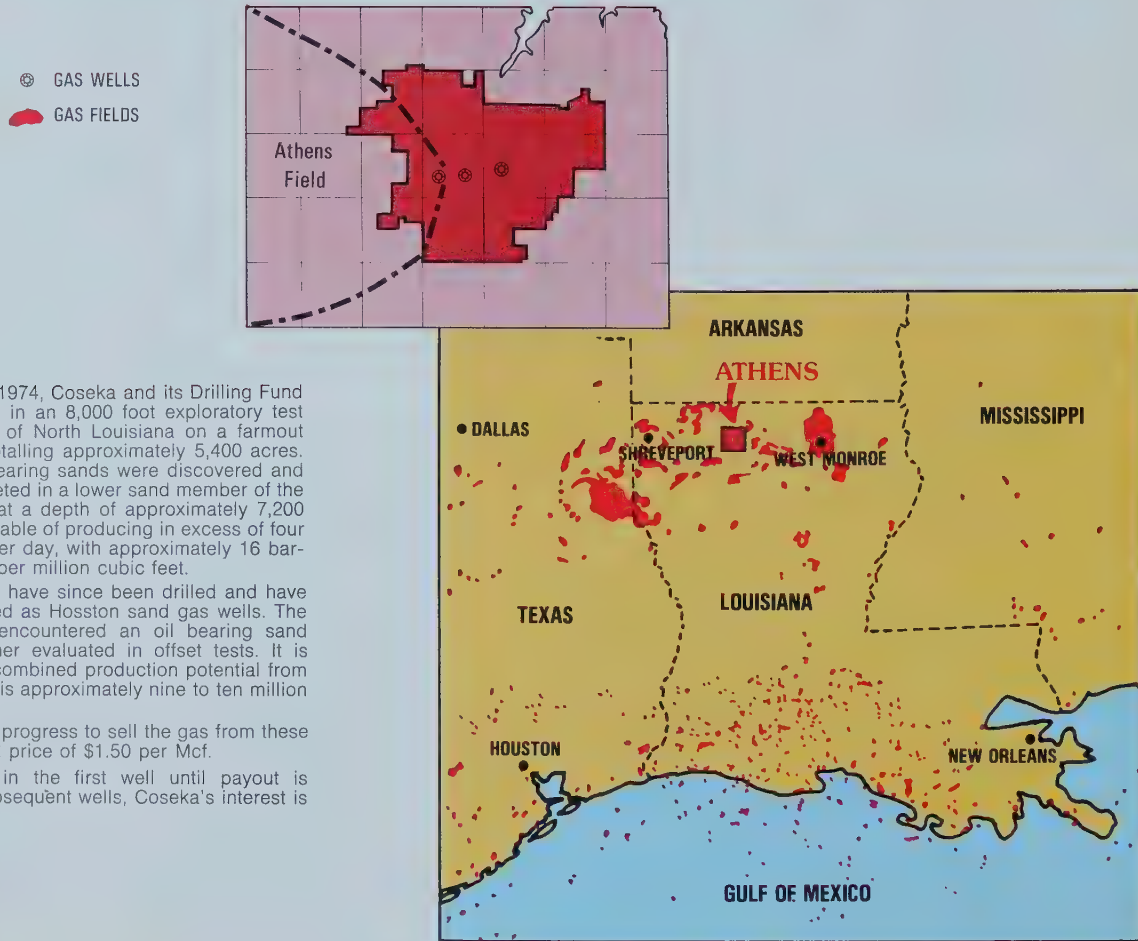
Coseka discovered oil in the Otter area of northern Alberta in January of this year, under a Farmout Agreement with Atlantic Richfield Canada Ltd. Under the terms of the Agreement, Coseka and its Drilling Fund partner were required to drill two wells, one in each of two adjoining Reservations in order to earn an interest in the lands. Both wells resulted in commercial oil wells.

In order that drilling and production operations may be carried out throughout the year, construction of a 14 mile all-weather road was immediately commenced and completed in August of this year. Drilling operations then resumed and two further wells have been drilled to the date of this report. One well found the productive reservoir too high and pinched out, and has been abandoned. Casing has been set on the fourth well and it is now awaiting a service rig for completion.

Before further drilling is resumed, a detailed geological and seismic review has commenced in order to attempt to improve the future development success ratio.

By drilling the first two wells, Coseka has earned an interest in 4,320 acres. Coseka's interest in the first two wells until payout is 47.5%. Coseka's interest in subsequent wells is 23.75%.

ATHENS, Louisiana (U.S.A.)



In the latter part of 1974, Coseka and its Drilling Fund partner participated in an 8,000 foot exploratory test in the Athens area of North Louisiana on a farmout block of acreage totalling approximately 5,400 acres. A number of gas bearing sands were discovered and the well was completed in a lower sand member of the Hosston formation at a depth of approximately 7,200 feet. The well is capable of producing in excess of four million cubic feet per day, with approximately 16 barrels of condensate per million cubic feet.

Two follow up tests have since been drilled and have also been completed as Hosston sand gas wells. The second well also encountered an oil bearing sand which will be further evaluated in offset tests. It is estimated that the combined production potential from the first three wells is approximately nine to ten million cubic feet per day.

Negotiations are in progress to sell the gas from these lands at a wellhead price of $1.50 per Mcf.

Coseka's interest in the first well until payout is 35.625%. In all subsequent wells, Coseka's interest is 17.8%.

Consolidated Statement of Financial Position

AS AT JULY 31, 1975
(With prior year figures for comparison)

	1975	1974
CURRENT ASSETS:		
Cash	$ 123,176	$ 87,332
Term deposits and short-term notes	110,000	276,122
Accounts receivable	854,487	629,185
Marketable securities - at cost (market value 1975 - $332,000; 1974 - $356,250)	128,973	45,000
Inventories of equipment for resale and materials — at the lower of cost or net realizable value	170,352	204,376
Prepaid expenses	15,770	15,782
Total current assets	1,402,758	1,257,797
CURRENT LIABILITIES:		
Bank indebtedness	—	150,000
Accounts payable and accrued liabilities	840,003	801,539
Current portion of long-term debt	482,700	475,200
Total current liabilities	1,322,703	1,426,739
WORKING CAPITAL (DEFICIENCY)	80,055	(168,942)
INVESTMENTS - at cost or nominal value as appropriate	112,366	87,366
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 2)	13,769,262	9,375,416
OTHER ASSETS	116,164	124,597
	14,077,847	9,418,437
DEDUCT:		
Long-term debt (Note 3)	6,963,300	3,667,420
Deferred income taxes	115,577	32,459
Minority interests	330,084	309,687
Deferred income (Note 4)	205,368	—
	7,614,329	4,009,566
EXCESS OF ASSETS OVER LIABILITIES	$ 6,463,518	$ 5,408,871
SHAREHOLDERS' EQUITY:		
Share capital (Note 5)	$ 5,236,021	$ 5,227,021
Contributed surplus	88,204	88,204
Retained earnings	1,139,293	93,646
Total shareholders' equity	$ 6,463,518	$ 5,408,871

APPROVED BY THE BOARD:

John A. Davidson, Director

Director

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED JULY 31, 1975
(With prior year figures for comparison)

	1975	1974
RETAINED EARNINGS AT BEGINNING OF THE YEAR	$ 93,646	$ 111,377
NET INCOME FOR THE YEAR	1,052,575	198,472
COSTS WRITTEN OFF ON MINERAL PROPERTIES ABANDONED - net of $2,069 minority interests; 1974 - $11,013	(6,928)	(177,782)
FINANCING COSTS RELATED TO SHARE CAPITAL	—	(38,421)
RETAINED EARNINGS AT END OF THE YEAR	$ 1,139,293	$ 93,646

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED JULY 31, 1975
(With prior year figures for comparison)

	1975	1974
FUNDS PROVIDED:		
Generated by operations	$ 1,230,962	$ 312,978
Proceeds from sales of petroleum and natural gas properties	—	1,891,250
Proceeds from sales and option payments received on mineral properties	110,000	122,000
Reduction in principal portion of long-term receivables	—	10,926
Bank loans	1,696,000	675,000
Proceeds of debenture issue	3,500,000	1,500,000
Proceeds of share issue	9,000	2,000,001
Proceeds of share issue by subsidiary	—	168,750
Gain on sale of marketable securities	114,616	—
Deferred income	205,368	—
Total funds provided	6,865,946	6,680,905
FUNDS APPLIED:		
Expenditures on petroleum and natural gas properties	4,293,433	4,684,982
Principal reduction in bank loans	1,900,120	887,580
Expenditures on mineral properties	313,363	106,772
Expenditures on fixtures and equipment	67,381	10,268
Purchase of investments	25,000	18,528
Net expenditures on other assets	17,652	31,763
Current assets reclassified as non-current	—	16,375
Total funds applied	6,616,949	5,756,268
INCREASE IN WORKING CAPITAL FOR THE YEAR	248,997	924,637
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE YEAR	(168,942)	(1,093,579)
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR	$ 80,055	$ (168,942)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Income

FOR THE YEAR ENDED JULY 31, 1975
(With prior year figures for comparison)

	1975	1974
INCOME:		
Sales	$ 1,915,170	$ 602,065
Royalties	(374,041)	(130,468)
Income net of royalties	1,541,129	471,597
EXPENSES - excluding depletion, depreciation and amortization:		
Operating	219,503	95,761
Administrative	90,664	62,858
Total expenses	310,167	158,619
FUNDS GENERATED BY OPERATIONS	1,230,962	312,978
OTHER CHARGES:		
Depletion, depreciation and amortization	187,419	72,342
Loss on disposal of non-current assets	—	8,702
Total other charges	187,419	81,044
INCOME BEFORE INCOME TAXES, EXTRAORDINARY ITEMS, AND MINORITY INTERESTS	1,043,543	231,934
PROVISION FOR INCOME TAXES - deferred (current in 1974)	415,476	116,824
INCOME BEFORE EXTRAORDINARY ITEMS AND MINORITY INTERESTS	628,067	115,110
EXTRAORDINARY ITEMS:		
Gain on sale of marketable securities - net of deferred income taxes of $28,654 (Note 1)	85,962	—
Reduction of income taxes - deferred (current in 1974) (Note 7)	361,012	126,730
Gain on sale of subsidiary's natural gas property - net of deferred income taxes of $40,654	—	39,991
Write-down of investment to nominal value	—	(75,769)
	446,974	90,952
INCOME BEFORE MINORITY INTERESTS	1,075,041	206,062
MINORITY INTERESTS	22,466	7,590
NET INCOME FOR THE YEAR	$ 1,052,575	$ 198,472
EARNINGS PER SHARE	Note 8	

The accompanying notes are an integral part of the consolidated financial statements.

COSEKA RESOURCES LIMITED
AND SUBSIDIARY COMPANIES

Notes to the Consolidated Financial Statements

JULY 31, 1975

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of Consolidation:
The consolidated financial statements include the accounts of the following subsidiaries since their respective dates of acquisition:

Wharf Resources Ltd.	—	77% owned
Safari Oil and Gas Limited	—	80% owned
Silgold Mines Inc.	—	100% owned

There are other subsidiaries which are inactive and have neither assets nor liabilities and are carried at nominal value.

(b) Petroleum and Natural Gas Properties:
The company follows the full cost method of accounting for all costs related to petroleum and natural gas properties. Under this method such costs, including a portion of administrative expenses, relating to the exploration for and development of oil and natural gas reserves are capitalized. Proceeds received from disposal of properties are credited against accumulated costs. Depletion and depreciation of net costs are provided for by the unit-of-production method based on the company's total estimated recoverable reserves on all properties. Coseka Resources Limited has made numerous assignments of oil and gas rights to the Prodeco Drilling Fund Partnerships. The proceeds from the assignment of these properties, arising out of future production totalling $2,712,237 plus interest thereon, will be reflected in the Financial Statements as received.

(c) Mineral Properties:
The company follows the practice of capitalizing in its accounts all costs, including a portion of administrative expenses, relating to the exploration for and development of mineral properties and crediting all sales and option payments received against the costs of related properties. The company considers its mining exploration and development to be a separate business from its activities in the petroleum and natural gas industry. As recommended in the Canadian Institute of Chartered Accountants' research study on non-producing mining companies, the aggregate of the costs related to mineral properties abandoned is charged to retained earnings at the time of abandonment.

(d) Other Property and Equipment:
Other property and equipment are recorded generally at cost. Office fixtures and equipment and automotive equipment are depreciated using the declining balance method at rates varying from 20% to 30%. Leasehold improvements are amortized over the terms of the leases.

(e) Extraordinary Items:
The gain on sale of marketable securities by a subsidiary is included in extraordinary items rather than in operating income as the transaction is not considered to be typical of the normal business activities of the companies, is not expected to occur regularly over a period of years and is not a recurring factor in evaluating the ordinary operations of the business.

2. PROPERTY, PLANT AND EQUIPMENT:

The balance is comprised of the following:

	Carrying Values (Note 1)	Accumulated Depletion, Depreciation, and Amortization
Petroleum and natural gas leases and production facilities	$13,176,455	$314,975
Mineral properties	793,147	—
Other property and equipment	133,135	18,500
TOTAL	$14,102,737	$333,475

3. LONG-TERM DEBT:

Long-term debt comprises:

(a) 8% convertible debentures:

First Debenture due September 7, 1976	$1,500,000
Second Debenture due August 1, 1979	3,500,000
	$5,000,000

The debentures are secured by a first floating charge on all present and future assets of the company, and are convertible before maturity into common shares at $2.75 per share and $3.00 ($3.50 after August 1, 1977) per share respectively. Under the terms of a financing agreement, the debentureholder has certain rights of first refusal in any subsequent equity financing required by the company.

The agreement restricts, without the prior consent of the debentureholder, any change in the capital structure of the company, the payment of dividends, and the assumption of additional indebtedness by the company and its subsidiaries.

(b) Demand Bank Loan:

The bank loan in the amount of $1,963,300, net of current portion, is secured by a general assignment of accounts receivable and assignments of the company's interests in certain petroleum and natural gas properties. The loan bears interest at prime rate (9% at July 31) plus ¾% and is repayable in monthly instalments of $4,700 plus interest to December 1975 and in monthly instalments of $65,600 plus interest thereafter.

Interest paid and debenture discount amortized during the year ended July 31, 1975 totalled $581,803 of which $523,623 was capitalized as part of petroleum and natural gas and mineral properties and $58,180 was charged to operating expenses.

4. DEFERRED INCOME:

During the year, a long-term gas sales contract was entered into by the company. Amounts receivable in advance of delivery of the gas, net of related royalties, are deferred, and will be transferred to income when the gas is delivered.

5. SHARE CAPITAL:

Details of share capital are as follows:

Authorized:

1,200,000 6% exchangeable shares of no par value

10,000,000 common shares of no par value

During the year, authorized share capital was increased by 1,500,000 common sares to the present 10,000,000 common sares of no par value.

Issued and fully paid (Note 6):

	Shares	Amount
6% Exchangeable Shares:		
Balance July 31, 1974	633,468	$ 950,202
Exchanged for common shares	293,567	440,350
Balance July 31, 1975	339,901	509,852
Common Shares:		
Balance July 31, 1974	5,862,317	4,276,819
Issued for exchangeable shares	293,567	440,350
Issued under employee stock option plan	4,000	9,000
Balance July 31, 1975	6,159,884	4,726,169
TOTAL		$5,236,021

The 6% exchangeable shares provide for a 6% non-cumulative preferential dividend and priority of return of capital, are redeemable, at the option of the company, for the paid up amount thereon plus a portion of the retained earnings as determined by the Articles of the company, and may be exchanged, at the shareholder's option, for a like number of common shares.

At July 31, 1975 a total of 2,512,235 shares of the company were reserved to meet the conversion privileges of the debentures (Note 3) and the exchangeable shares and the stock options outstanding (Note 6).

Notes to the Consolidated Financial Statements (cont'd)

6. STOCK OPTIONS:

(a) Employees:

Stock options have been granted to officers and employees covering a total of 165,000 common shares at a price of $2.25 per share. The options are exercisable 20% at the date of granting the option and 20% on each of the following four anniversary dates, with cumulative rights to acquire in subsequent years shares not acquired during previous years. The options are subject to restrictions relating to the optionee's employment with the company, and expire on varying dates during the twelve month period ending January 16, 1980.

(b) Partner in a Drilling Fund:

An option has been granted to a partner in a drilling fund to acquire up to 300,000 common shares at $2.75 per share. The option, which expires on December 31, 1976, may be exercised on the basis of 10,000 shares for each $100,000 expended under a drilling fund agreement, up to the maximum of 300,000 shares ($1,602,896 expended to date).

(c) Shareholder:

The company has granted to a shareholder the right to acquire on or before January 15, 1977 sufficient common shares at $2.75 per share to maintain its percentage interest in the company should the drilling partner exercise the option referred to in Note 6(b). The percentage interest is to be calculated taking into account the conversion rights attaching to the Debentures referred to in Note 3. Assuming the exercise of all options under 6(b), a maximum of 134,922 shares would be issuable under the option to the shareholder.

7. EXTRAORDINARY ITEM - Reduction of deferred income taxes:

Deferred income taxes have been reduced by claiming capital cost allowance and exploration and development expenses for tax purposes amounting to $1,135,000 in excess of depletion and depreciation recorded in the accounts. This excess represents utilization of amounts by which depletion, depreciation and related write-offs of expenses in the accounts in prior years were in excess of the amounts claimed for tax purposes. These potential tax reductions were not recorded in the accounts in previous years.

8. EARNINGS PER SHARE:

Deferred income shown in the balance sheet, related to the take or pay contract described in Note 4, less associated depletion and deferred income taxes amounts to 1.7¢ per share.

Earnings per common share calculated on the basis of the daily weighted average number of shares outstanding during the period are as follows:

	1975	1974
Income before extraordinary items	10.0¢	1.9¢
Extraordinary items	7.4	1.6
Net income for the year	17.4¢	3.5¢

If all of the 6% exchangeable shares outstanding at the beginning of the period had been converted to common shares at that time, the debentures referred to in Note 3 had been converted at the time of issue, and the stock options referred to in Note 6(a) had been exercised at the time of granting, the earnings per share (fully diluted) would have been:

	1975	1974
Income before extraordinary items	7.8¢	1.8¢
Extraordinary items	5.5	1.6
Net income for the year	13.3¢	3.4¢

For purposes of calculating the fully diluted earnings per share, earnings, net of income taxes, attributable to common shares have been increased by approximately $34,000 resulting from a reduction in debenture interest expense, a reduction in depletion expense relative to the debenture interest which has been capitalized in petroleum and natural gas properties and an assumed rate of return of 9% on the proceeds which would have been received on exercise of the stock options.

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

No remuneration was paid to the directors of the company as directors. The aggregate remuneration paid or payable by the company to directors and senior officers, as defined in the Companies Act, British Columbia, amounted to $141,167 ($118,249 in 1974).

10. COMPARATIVE FIGURES:

Certain of the 1974 figures provided for purposes of comparison have been reclassified to conform to the classifications used in the current year.

Auditors' Report

To the Shareholders of
Coseka Resources Limited:

We have examined the consolidated statement of financial position of Coseka Resources Limited and subsidiary companies as at July 31, 1975 and the consolidated statements of income, retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at July 31, 1975 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

As required by the Companies Act, British Columbia, we also report that, in our opinion, due provision has been made in these consolidated financial statements for minority interest in subsidiaries.

Vancouver, British Columbia
September 30, 1975

DELOITTE HASKINS & SELLS
Chartered Accountants

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REPORT TO THE SHAREHOLDERS

For the Six Months ended January 31, 1975

COSEKA RESOURCES LIMITED

Suite 2190, Guinness Tower,
1055 West Hastings Street,
Vancouver, B.C. V6E 2E9

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FINANCIAL:

The Statement of Income for the six months ended January 31, 1975, with comparative figures for January 31, 1974, submitted in this Interim Report, show an increase in net income of approximately 500% over the comparable 1974 period. Continued property development and subsequent sale of production during this period is the main cause of this improvement and, to a lesser degree, the increase in natural gas prices which went into effect on November 1, 1974. Increased income from the largest proportion of production increases as a result of development work carried out in 1974, including a 100% increase from the Tilley-Bantry property, a 90% increase from the Medicine Hat properties, and 3,000 Mcf per day new production from the Hatton property, are not properly reflected in the results for this period since this production did not come on stream until late December and January.

In August of the year, Brinco Limited provided an additional $3,500,000 financing by the purchase of a Coseka 8% Convertible Debenture, being the last of its commitment under a Purchase Agreement dated September 7, 1973. The proceeds from this financing were applied to retire $1,517,420 of secured bank loans, and the balance for development, exploration and production equipment.

The Company's working capital deficit as at January 31, 1975, reflects the results of the development programs completed during the period under review. To alleviate the Company's cash requirements, a bank line of credit totalling $1,400,000, secured against an interest in a specific property, was arranged in January of 1975. Due to certain agreements with the Company's debenture holder, this loan must be repaid within one year from January, 1975.

EXPLORATION AND DEVELOPMENT HIGHLIGHTS:

OTTER (Northwestern Alberta)

Coseka, as Operator, participated in the discovery of what may prove to be a significant new Alberta oil field. Currently there are two wells (1¼ miles apart) producing oil into production tanks. The oil is being trucked for sale at a pipeline terminal approximately ten miles away. The first well drilled qualifies as an incentive exploratory well under the new Alberta Petroleum and Natural Gas Regulations and, accordingly, the production will be royalty free for five years. By the drilling of the two wells, Coseka earned an interest in 4,320 acres. Coseka and its Partners are currently building an all-weather road into the property so that development and production may be carried out throughout the year. Development drilling will continue following road completion. Since additional Crown acreage is expected to be posted for sale in this area, Coseka and its Partners are maintaining a tight security blanket with respect to details concerning this discovery.

NORTH COLEMAN (Southwestern Alberta)

A Gas Sales Agreement was finalized which will yield the Company approximately 83¢ to 85¢ per Mcf at the wellhead. Details of this contract were reported to the shareholders in the last quarterly report. Production from this field will commence on a take-or-pay basis in May or June, as soon as delivery facilities are completed.

ATHENS (North Louisiana, U.S.A.)

The first well was drilled and completed as a "rich condensate" gas well from a depth of approximately 7,200 feet. There are approximately four other potential gas bearing sands further up the hole which will be more fully evaluated in future wells. Coseka's interest extends to approximately 5,400 acres. A second well was recently spudded approximately one mile east of the discovery well. There are many gas pipelines traversing near the property and negotiations are in progress in an attempt to obtain as favourable a gas sales contract as possible.

GUNDY CREEK (Northeastern British Columbia)

The second (2-mile step-out) well was recently tested and yielded a production flow rate of 4.4 million cubic feet per day. A pipeline is currently being installed connecting this well to the existing producing facilities. The first well was connected for sales on January 25, 1975, and has demonstrated very favourable producing characteristics. Additional development drilling will take place later in the year. The project area, in which the Company has an interest, encompasses 17,160 acres.

STRACHAN (Central Alberta)

A new development well was completed which yielded 46.5 to 50.0 million cubic feet per day on production tests. The well will be connected for sales through the existing Processing Plant in due course.

NORTH BUICK CREEK
(Northeastern British Columbia)

A two-mile pipeline was recently completed connecting the Company's dual zone gas well for production. The well was turned on for production on March 23, 1975.

BENJAMIN CREEK (Central Alberta Foothills)

Problems have haunted the Benjamin Creek well since commencement of completion operations late last year. Due to a number of mechanical failures, the production potential of this well is still not known. Completion operations are still continuing on the well.

NORTH SEA

Upon review of the latest seismic results at a meeting in London early in March, Coseka and its partners have come to the conclusion that they have a drillable structure in Block G/15. Since the structure appears to extend into the bordering German waters, negotiations have commenced for seismic information exchange. It is hoped that a joint well will be drilled.

Respectfully submitted,

PETER R. KUTNEY,
President.

March 26, 1975.

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COSEKA RESOURCES LIMITED and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	Six Months Ended January 31st 1975	1974
REVENUE	$ 647,243	$ 247,559
LESS ROYALTY PAYMENTS	154,935	45,386
NET REVENUE	492,308	202,173
OPERATING EXPENSES	92,525	31,233
ADMINISTRATIVE EXPENSE (NET OF RECOVERY)	61,854	45,453
OTHER (INCOME) EXPENSES — NET	(15,933)	5,189
	$ 138,446	$ 81,875
FUNDS GENERATED FROM OPERATIONS	$ 353,862	$ 120,298
PROVISION FOR DEPLETION, DEPRECIATION AND AMORTIZATION	44,388	36,135
PROVISION FOR INCOME TAXES	235,296	42,425
	$ 279,684	$ 78,560
INCOME BEFORE EXTRAORDINARY ITEMS AND MINORITY INTERESTS	$ 74,178	$ 41,738
EXTRAORDINARY ITEMS AND MINORITY INTERESTS	298,088(1)	34,766
NET INCOME FOR THE PERIOD	$ 372,266	$ 76,504

(1) Includes sale of marketable securities held by subsidiary company (1975 — $114,616), and reduction of income taxes payable as a result of utilization of deferred tax debits (1975 — $235,296; 1974 — $42,425).

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

	Six Months Ended January 31st 1975	1974
FUNDS PROVIDED:		
Funds from operations	$ 353,862	$ 120,298
Proceeds from issuance of convertible debenture	3,500,000	1,500,000
Proceeds from issuance of 727,273 common shares	—	2,000,000
Proceeds from sale of investment	114,616	—
Other	571	5,400
	$3,969,049	$3,625,698
FUNDS APPLIED:		
Property, Plant and Equipment	$3,148,572	$2,608,496
Reduction in principal portion of long-term debt	1,517,420	880,250
Financing costs	17,258	30,598
Reclassification of current assets	—	26,371
Other	9,371	3,529
	$4,692,621	$3,549,244
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE SIX MONTHS	(723,572)	76,454
(WORKING CAPITAL) DEFICIENCY AT BEGINNING OF PERIOD	(168,942)	1,093,579
WORKING CAPITAL DEFICIENCY AT END OF PERIOD	$ (892,514)	$1,017,125

John S. Davidson

Director

Director